

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 EUR-12 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-05 CEA-01 PRS-01 PA-01 AGRE-00 OES-07 /100 W
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R 131155Z SEP 77
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 9368
INFO AMEMBASSY BONN

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C O R R E C T E D C O P Y (MRN SHOULD READ 15309 VICE 15197)

E.O. 11652: N/A
TAGS: ECON, EFIN, EG
SUBJECT: FRG ECONOMIC EVALUATION PRESENTED TO SADAT

REF: (A) CAIRO 9437; (B) CAIRO 5019

1. LONG-AWAITED WEST GERMAN STUDY OF GOE ECONOMY WAS PRESENTED TO PRESIDENT SADAT SEPT 11, ACCORDING TO PRESS SOURCES. STUDY WAS MADE BY PROFESSOR ALEX MOELLER, FORMER FRG FINANCE MINISTER, AND FOUR MEMBER TEAM (REF B). MOELLER REPORT IS CHARACTERIZED AS COMPREHENSIVE ANALYSIS OF GOE ECONOMY WHICH CONCENTRATES ON EGYPTIAN BALANCE OF PAYMENTS ISSUES, PARTICULARLY DEBT REPAYMENT. EMPHASIS IS TO STRESS SOLUTIONS, NOT PROBLEMS. ACCORDING PRESS, GOE COMMISSIONED STUDY IN HOPES PROJECT WOULD REFLECT MEASURABLE ECONOMIC IMPROVEMENT AS DIRECT RESULT OF GOE LIBERALIZATION POLICIES PURSUED OVER LAST TWO YEARS. REPORT ITSELF, WHICH WE UNDERSTAND IS IN GERMAN AND ARABIC ONLY HAS NOT BEEN MADE PUBLIC.

2. IN PRESS CONFERENCE SEPT 12, MOELLER TOOK UPBEAT STANCE,
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MAINTAINING THAT BROADENING OF OPEN DOOR POLICY COULD ONLY IMPROVE GOE ECONOMY. ADDRESSING ISSUE OF ECONOMIC SOLUTIONS, MOELLER SAID GOE MUST DIVERSIFY EXPORTS TO INSURE ECONOMIC GROWTH. HE ALSO EMPHASIZED THAT CONTINUED ASSISTANCE FROM WESTERN DONOR COUNTRIES AND ARAB OIL STATES WAS IMPERATIVE FOR PROGRESS. PRESS MAKES ONLY LIMITED REFERENCE TO POPULATION PROBLEM WHICH MOELLER CLAIMED MOST SIGNIFICANT IN

HIS SUMMARY REPORT (SEE BELOW).

3. ECONCOUNS AT FRG EMBASSY TELLS US ACTUAL FULL REPORT HAS NOT BEEN SHOWN TO GERMAN EMBASSY OFFICIALS. HE COMMENTS THAT CONTENT AND PROJECTIONS PRESENT GOE ECONOMY IN UNFAVORABLE LIGHT AND EXPRESSES DOUBT WHETHER REPORT IN PRESENT FORM WILL EVER BE RELEASED. FRG SOURCE, HOWEVER, PROVIDED US SUMMARY OF PROJECT'S "SCOPE OF WORK" AND RECOMMENDATIONS -- ALL THAT IS AVAILABLE TO FRG EMBASSY. SUMMARY IS IN ENGLISH AND APPEARS DESIGNED FOR FAIRLY WIDE DISTRIBUTION. WE SPECULATE THIS WAS PRINCIPALLY FOR PRESS INFO.

4. BRIEF OUTLINE OF REPORTS COMMENTS AND RECOMMENDATIONS FROM THAT SUMMARY DOCUMENT FOLLOWS: (A) GIVEN GOE'S DEPENDENCE ON LIMITED NUMBER OF EXPORT COMMODITIES AND HIGH IMPORT BILL, FUTURE ECONOMIC DEVELOPMENT IS CRITICALLY DEPENDENT ON EXTERNAL ECONOMIC ASSISTANCE FROM ARAB WORLD, WESTERN EUROPE AND USG; (B) PROGRAMMING OF FOREIGN ASSISTANCE INFLOWS MUST BE IMPROVED AND WASTE OF RESOURCES ELIMINATED; (C) GOE MUST SEEK TO REINTEGRATE ITSELF INTO WORLD ECONOMY BY RATIONALIZING TRADE AND PAYMENTS FLOWS AND ELIMINATING DUAL EXCHANGE RATE SYSTEM THROUGH DEVALUATION TO UNIFIED EXCHANGE RATE; (D) GREATER COOPERATION IS REQUIRED BETWEEN GOE AND ARAB MONETARY FUND; (E) A LONG TERM FAMILY PLANNING PROGRAM MUST BE UNDERTAKEN ("PRESENT LIMITED OFFICIAL USE

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ONE IS", ACCORDING TO MOELLER, "DOOMED TO FAILURE"). (F) MAJOR DIVERSIFICATION OF PLANNED DEVELOPMENT MUST BE UNDERTAKEN, CONCENTRATING ON AREAS OUTSIDE ALEXANDRIA AND CAIRO; (G) DECENTRALIZATION MUST BE EFFECTED ON MANY LEVELS AND GOVERNMENT SERVICE "STREAMLINED"; (H) GOE BUDGETARY PROCESS MUST BE SIMPLIFIED, ADDITIONAL REVENUES FOUND AND TAX REFORM COMPLETED; (I) INDUSTRIAL POLICY MUST CONCENTRATE ON EXPANSION OF CAPITAL GOODS, IMPORT SUBSTITUTION AND IMPROVEMENTS IN TECHNOLOGY AND EFFICIENCY; (J) AGRICULTURAL PRODUCTION HAS TO BE INCREASED.

5. OUTLINE INDICATES MOELLER REPORT PROPOSES CERTAIN MAJOR ECONOMIC AND SOCIAL SOLUTIONS TO EGYPT'S PROBLEMS, BUT SUMMATION PROVIDED BY FRG EMBASSY CONTAINS FEW FIGURES OR OTHER DETAILED INFORMATION. SUMMARY CONCLUDES THAT BURGEONING POPULATION IS PRINCIPAL OBSTACLE TO ECONOMIC GROWTH AND, NOT ONLY MUST EFFECTIVE POPULATION CONTROL MEASURES BE TAKEN, BUT ALSO MORE EFFECTIVE EMPLOYMENT MEASURES MUST BE FOUND. IN "BEST CASE" SITUATION, ACCORDING MOELLER SUMMARY, 10 MILLION ADDITIONAL WORKERS WILL HAVE ENTERED EGYPTIAN LABOR FORCE BY

YEAR 2000. PARTIALLY TO ALLEVIATE PROBLEM, MOELLER
RECOMMENDS IMMEDIATE SHIFT TO EMPHASIS ON TECHNICAL AS
OPPOSED TO UNIVERSITY TRAINING.

6. GIVEN USAID'S INFORMATIONAL NEEDS IN RESPONDING
TO HUMPHREY AMENDMENT REQUIREMENT, BELIEVE WE MAY BE
ABLE TO OBTAIN COPY OF MOELLER REPORT FROM PRESIDENCY.
IF REPORT IS AS NEGATIVE AS FRG EMBASSY SOURCE BELIEVES,
HOWEVER, GOE MAY PROVE TO BE RELUCTANT TO RELEASE IT.

7. FOR BONN: POST WOULD APPRECIATE ANY SOUNDINGS
THAT COULD BE MADE WITH FRG AS TO POSSIBILITY OF
SECURING COPY MOELLER REPORT.

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8. FURTHER DETAIL AND COMMENT ON REPORT FOLLOW SEPTTEL.
COPIES OF SUMMARY BEING POUCHED NEA/EGY. EILTS

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